

White Paper

**Controlling Transportation  
Activity and Spend**

A Checklist for Transportation Executives



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## Introduction

Transportation remains one of the top five expenditures for manufacturers and distributors. As companies look to be more responsive to marketplace demand and economic fluctuations, gaining control over transportation activity and costs is more critical now more than ever.

"A 5% reduction in transportation cost has the same P&L impact as a 30% increase in sales." -- Leading industry analyst firm

Paying close attention to these ten control factors can help you both improve transportation performance and reduce costs. Moreover, when performance and cost trends turn adverse, the root cause can usually be traced back to a failure in one or more of these ten factors. This simple checklist will help you possible areas for improvement and begin the corrective action process.

Ask yourself the following questions and rate your organization on a scale from 1-5: (with 1 as poor performance as in "we don't do this or track this"; to 5 being "yes, we have those systems and processes in place already").

## Ten Control Factors for Managing Transportation Performance and Spend

### 1. *Make On-Time Delivery to Customers the Primary Transportation Objective*

In quality management, the needed mind-set is zero defects. In transportation, the equivalent measure is 100% on-time delivery. On-time delivery of inbound goods, such as raw materials, gives internal customers better control of inventory carrying costs. Better on-time delivery to customers creates fewer reasons for them to challenge your price. And on-time delivery eliminates waste and expediting costs.

### 2. *Maintain All Rates and Shipment Activity In a Single Repository*

Global transportation networks often result in dispersed control. Bringing transportation rates and transportation activity into a single view or system improves visibility across the company, and allows for adverse trends in cost or performance to be identified more quickly.

### 3. *Use a Transportation Contract to Control Rates, Capacity and Service Levels; and to Manage Risk*

To protect both parties, have a formal process with each carrier that leads to agreement on rates, accessorial charges, service standards, agreed volume of business, limits of liability on cargo loss, third party claims, etc. This should take precedence over a Bill of Lading or any carrier tariffs.

### 4. *Plan the Date and Time for Each Pickup & Delivery in Advance and Inform Carriers, Shippers, & Customers Promptly*

The date and time of pickups and deliveries should be planned and posted so that participants across the network can plan accordingly. Communicating plans in advance increases the likelihood that transportation service will be more cost-effective and on-time. Everyone understands the occasional last-minute rush to

get the goods to a customer, but a shipper that always operates on a last-minute basis pays more, in dollars and poor service.

5. *Log the Cost of Each Shipment Before It Leaves, Including Unbundling Details on Line Haul Rates, Accessorials & Fuel Surcharges*

Total freight charges should be unbundled so they can be scrutinized for cost-saving opportunities. Logging helps ensure freight charges are properly accrued and enables freight bills to be checked for accuracy. The shipment log can provide valuable information during pricing deliberations and negotiations with carriers, suppliers and customers. Inbound shipments should have freight charges unbundled from the cost-of-goods; separating out freight charges helps buyers get a better handle on the real cost of raw materials.

6. *Keep Transportation Assets Moving*

Transportation assets are too expensive to lay idle, whether they are your company's private fleet or outside carrier trailers, railcars, airplanes, ships or containers. Improve your asset utilization through:

- improved planning
- maintaining closer control & location monitoring
- using preventive maintenance to avoid unplanned downtime
- and setting and keeping to an appointed schedule

7. *Monitor Every Shipment—from Booking to Delivery—Proactively*

Implement daily notification of shipment delays to better control unplanned costs and minimize customer service issues. Earlier notice always produces more informed decisions on corrective action. Technology can help to manage exceptions.

8. *Pay Carriers Based on the Payer's Record of Events and Charges*

The company controlling the shipment should have all the information it needs to pay the carrier:

- A record of all rates and activity, kept in a single repository
- Every shipment cost detail is logged before the shipment departs
- Shipment events are monitored and en route costs captured

Whether matching the carrier invoice, or paying without an invoice and putting the onus for audit on the carrier, freight bill payment becomes more efficient, and cash flow management more effective. Some carriers offer discounts beyond normal commercial terms to shippers who pay without an invoice.

9. *Going Green with Improved Resource Management to Positively Impact the Bottom Line*

Along with better asset utilization, going green means having initiatives for:

- Monitoring and improving load factors, so that fewer trips are needed
- Tracking MPG for an in-house fleet and requiring outside carriers to show improvement in their fuel consumption. Operator

behavior can be cost-effectively incented to decrease fuel consumption and equipment design and maintenance practices can be modified to reduce fuel consumption

- One short-cut to identifying fuel efficient carriers is to check out carriers who are participants in the EPA's "SmartWay Transportation Partner" program. These carriers commit to goals and are recognized for achievement in improved fleet efficiency and lower emissions.

#### 10. *Use Key Performance Indicators to Track Performance Trends*

Keep attention focused on cost control and performance by tracking by carrier, by supplier and by customer. Implementing improvement plans when trends turn adverse. Information gained from tracking provides feedback for your company and for trading partners, on how each player's performance affects cost and customer service results.

### **Scoring:**

- 40-50 points: Give your transportation team a hand (and a bonus) for tracking costs, improving the bottom line and generating customer goodwill.
- 30-39 points: Give the transportation team kudos for paying attention to some areas where transportation costs and service improvement can be made, but there's still more to be done to help delivery performance and cost containment.
- Under 30 points: There is strong upside potential for you. Consider a transportation diagnostic assessment to help you identify areas for biggest payback.

Find out more how Hitachi Consulting's Responsive Asset Management services can assess your current Transportation performance and provide a roadmap to help you implement initiatives that deliver significant results and a return on investment in less than a year.

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Email us at [info@hitachiconsulting.com](mailto:info@hitachiconsulting.com) or  
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We look forward to talking with you further about your challenges and opportunities.

## About Hitachi Consulting

As Hitachi, Ltd.'s (NYSE: HIT) global consulting company, Hitachi Consulting is a recognized leader in delivering proven business and IT solutions to Global 2000 companies. With a balanced view of strategy, people, process and technology, we work with companies to understand their unique business needs, and to develop and implement practical business strategies and technology solutions.

Hitachi Consulting's client base includes nearly 25 percent of the Global 100 and many leading mid-market companies. From business strategy development through application deployment, we help clients quickly realize measurable business value and achieve sustainable ROI.

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## About Hitachi

Hitachi, Ltd., (NYSE: HIT / TSE: 6501), headquartered in Tokyo, Japan, is a leading global electronics company with approximately 400,000 employees worldwide. Fiscal 2008 (ended March 31, 2009) consolidated revenues totaled 10,000 billion yen (\$102.0 billion). The company offers a wide range of systems, products and services in market sectors including information systems, electronic devices, power and industrial systems, consumer products, materials, logistics and financial services. For more information on Hitachi, please visit the company's website at <http://www.hitachi.com>.

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